

THE LEONARD LETTER

January 24, 2005

QUOTE OF THE WEEK

"Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it."

---U.S. President Ronald Reagan

AROUND THE STATE

*****Helping Taxpayers*****

I applaud fellow Board of Equalization Member Claude Parrish for the improvements to Board practices that he has recommended. I concur with his belief that these changes will be beneficial to taxpayers who are appearing before the Board. The staff would be required to ask the Board after each decision whether the decision should be published. A published decision is the only way taxpayers learn what the Board's interpretation of tax rules are. Last decade the Board stopped publishing many decisions. Returning to that process will benefit taxpayers and enable us to develop a more coherent body of tax guidance. He also wants to schedule our cases to give taxpayers more time when needed to present their cases and to try to give taxpayers a better idea of when their cases will be heard.

*****Governor's Reforms: Public Employee Pensions*****

The press has missed one important aspect of the pension reform debate. The press has compared the Governor's reform on public employee pensions to the President's reform on social security. While both are addressing the bump caused by baby boomer generation retirements, they are two different plans. Whether or not the government employees' pension money investments are controlled by the employees directly in the form of some privatized plan or by the pension board of trustees as is currently done is not the real issue. The issue is defined benefit versus defined contribution. Defined benefit is the nature of the current public pension system. You get a pension developed by a formula that has nothing to do with the amount of actual dollars paid into the trust fund by you or your employer. Obviously this means that employees never have to pay for increases in benefits. Further, since the pension is a contract, the entire state of California budget could go in the red by billions and that pension obligation would still be owed.

A defined contribution plan is what the Governor is proposing. Employees put in their money, state government puts in its share, the money is invested by the trustees, and when the employee retires this entire amount -- whatever it is -- will be paid back to the worker. If employees want bigger pensions they can either: increase their own contributions, bargain under the labor

contract for government to increase its contributions, or urge the pension trustees to make better investments that will return the most money when they retire. In this way the pension fund is never out of balance and all the incentives are for the money invested to grow for the employees' benefit.

This is the only fiscally responsible pension plan and should be considered with all of the other budget balancing efforts. One last twist: because pensions are a contract with employees, the new defined contribution pension proposal would apply only to new public employees.

*****Save Your Military*****

Governor Schwarzenegger's appointment of the Base Closure Commission is a good step for California, but very late compared to other states. If you live or work in an area with a military installation as a neighbor I urge you to join with local efforts to show the Pentagon the vitality and usefulness of that installation. While one would hope that base closure decisions would be based on military realities, we know from the Clinton and Bush rounds that the process becomes highly politicized. States that unify in behalf of their military do better than those who do not.

*****Elections in Perspective*****

With the recount continuing in the state of Washington for the Governor's race it is easy to think of elections as an unending series of legal arguments and civil disputes. But this Sunday I invite your thoughts and prayers for the voters in Iraq. Americans believe that voting is a fundamental right and now Iraqis are exercising this right for the first time ever. In a widely circulated Internet report, American soldiers are assisting by delivering the voting machines and the ballots to the polling places. The risk is obvious. My prayer is for God's protection on these soldiers and on every voter this coming Sunday.

*****Name Calling*****

The public hates name-calling and so do I. The Governor made headlines for making a comment about Three Stooges who oppose his budget. He was responding to one of those so designated who called his budget morally unbalanced. Since budget documents are neither moral nor immoral, it was clear that Treasurer Angelides was calling Schwarzenegger morally unbalanced. I am not making a whining plea for us all to get along, but I am suggesting that the voters would be better informed if their leaders stuck to explaining why their proposals are good public policy and why other proposals are not so good. Schwarzenegger has made a good case for state government living within its means even as he explains that he proposes more borrowing to avoid real cuts. The Democrats pick and criticize parts of this proposal (all budgets are easy to pick apart), but they need to make a case for their own fiscal plan if it is to be a comparable alternative.

I suspect the only real comparison is going to be the Governor's budget versus tax increases, which is why it is easier to call the Governor a name rather than debate the alternatives. That debate needs to take place so the leaders and the voters can choose which plan they like best.

By the way, I once was called one of the Three Stooges by a Republican disgruntled with my support for George W. Bush (then the Governor of Texas) running for President. The label quickly became a badge of honor from friends who also like Bush, as well as the many fans of the Three Stooges. Like the British who made up the slur name, 'Yankee,' to describe Americans, some names live on not in infamy, but in honor.

TAX NOTES

*****FTB540EZ Just Got Easier But Does Anybody Know It?*****

The Franchise Tax Board has finally made long-overdue positive changes to its Form 540 2EZ. For 2002, it removed the \$400 cap on interest income that could be reported on this form. For 2003, it allowed social security to be reported. For 2004, it allowed dividends and some pensions (if not treated differently than federal pensions) to be reported. Keeping the pressure on FTB has worked and will potentially save thousands of filers from being forced to use a more difficult return. However, not all of the 2004 FTB instructions have caught up with these changes. Only a portion of the instructions for the three 2004 forms have been posted. Pages 1-5 for Form 540 2EZ instructions are not yet posted; neither are pages 1-8 for Form 540A instructions, nor are pages 1-16 for Form 540 instructions. These are the pages that would normally contain alerts to changes. I urge the FTB to boldly provide this alert in the instructions for all three forms so that taxpayers will not use a harder form based on the old assumption that they do not qualify to use Form 540 2EZ.

MISCELLANY

*****Inaugural Notes*****

President Bush gave a civic sermon at his inauguration and I have been searching for any press report that caught it. Most caught that the speech echoed themes of President Woodrow Wilson and President Abraham Lincoln. I suspect the White House communications office pointed this out to the press corps. What they missed was that these themes speak to the role of government in proclaiming liberty throughout the land as offered in the Bible, which were constant messages of both Wilson and Lincoln. Further, Bush recognizes, as Lincoln said, that our prayer must not be that God is on our side but that we are on God's side. This is a well thought out sermon.

One who did catch this was the famous Reagan speechwriter Peggy Noonan, and she was critical of President Bush. She called it a God drenched speech with the overly ambitious goal of ending tyranny in the world. She dismissed this as not achievable because men on earth are not perfect and never will be. Noonan is off-base. The President and other followers of Christ know that man is not perfect, but they also know that the effort to expand liberty cannot be halted just because it is difficult.

What has been brought home to America since 9/11/01 is that opponents of liberty elsewhere in the world affect us. The genocide in Sudan and Rwanda, the warfare in the Balkans, the dictatorship in Iraq cannot be ignored by Americans. Tyrants are opponents of America's principles and ideals. The President's commitment to the expansion of liberty is a worthy goal clearly in the interest of America to pursue.

*****A Good Read*****

Our first president has such a profound influence on our new nation's culture and politics that it was only fitting for his biography to be written by an equally influential Supreme Court Justice. Fourth on Human Events' list of recommended biographies is John Marshall's "The Life of George Washington." Written in 1799, Marshall's original work ran five volumes. While the entire series is commendable, Marshall's later one-volume edition is more practical. It offers enlightenment about Washington's achievements and harkens back to the nobility of public service that I fear has been lost from much of political life in our time.

BOE AND LEGISLATIVE DATES

January 25, 2005 --- BoE meets in Sacramento.

January 29, 1850 - Henry Clay introduced to the Senate a compromise bill on slavery that included the admission of California into the Union as a free state.

February 1 – March 31, 2005 --- Application period for tax amnesty.

February 8, 2005 --- BoE meets in Sacramento.

February 14, 2005 --- Abraham Lincoln's birthday observed.

February 21, 2005 --- George Washington's birthday observed.

March 17, 2005 --- Legislature's spring recess begins.

March 28, 2005 --- Legislature observes Cesar Chavez Day.

March 31, 2005 --- Cesar Chavez Day.

NOTABLE DATES/ HISTORY

January 24, 1908 --- General Baden-Powell started the Boy Scouts.

January 24, 1964 --- The 24th Amendment to the U.S. Constitution became effective, making it unconstitutional to deny voting rights due to failure to pay taxes.

January 25, 1959 --- The first transcontinental commercial jet flight (American) occurred (Los Angeles to New York for \$301).

January 25, 1974 --- Ray Kroc, CEO of McDonald's, bought the San Diego Padres for \$12 million.

January 26, 1907 --- The first federal corrupt election practices law were passed.

January 27, 1858 --- John Brown organized a raid on the Arsenal at Harper's Ferry.

January 28, 1986 --- The Space Shuttle Challenger exploded 73 seconds after liftoff from Cape Canaveral, FL, killing all seven crew members.

January 29, 1850 --- Henry Clay introduced a compromise bill on slavery to the U.S. Senate.

January 30, 1815 --- The burned Library of Congress was reestablished with Thomas Jefferson's 6500 volumes.

January 30, 1847 --- Yerba Buena was renamed San Francisco.

January 30, 1971 --- UCLA's basketball team started an 88-game winning streak

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

HOW TO CONTACT ME

Bill Leonard, Member
State Board of Equalization, Second District
Email: bill.leonard@boe.ca.gov

Northern California Office:

400 Capitol Mall, Suite 2340
Sacramento, CA 95814
Telephone: (916) 445-2181
Fax: (916) 327-4003

Southern California Office:
4295 E. Jurupa Ave., Ste. 204
Ontario, CA 91761-1428
Telephone: (909) 937-6106
Fax: (909) 937-7044